

INTEGRATION OF MARKET ORIENTATION, MARKETING STRATEGIES AND PERFORMANCE: A CONCEPTUAL FRAMEWORK FOR INDONESIAN SMEs

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Abstract

Sektor UKM adalah sektor pencipta lapangan kerja dan pertumbuhan ekonomi dan karenanya minat di sektor ini semakin meningkat baik di negara maju maupun negara berkembang. Namun, sejumlah penelitian telah menunjukkan bahwa kegagalan usaha kecil dapat disebabkan oleh kurangnya praktik pemasaran, termasuk strategi dan implementasinya. Tulisan ini akan mencoba mengusulkan kerangka apakah konsep orientasi pemasaran dan strategi pemasaran dapat mempengaruhi kinerja UKM di Indonesia. Studi ini didasarkan pada literatur yang ada dengan menggunakan analisis kualitatif dan kuantitatif.

Keywords: Marketing strategies, Marketing orientation, SMEs, Performance

I. INTRODUCTION

A number of studies have pointed out the invaluable contribution of SMEs to the wider economy of a nation. In Indonesia's economy, for example, SMEs have generated employment and enhanced export growth (Wismiarsi *et al.*, 2008; Tambunan 2006). Further Wismiarsi *et al.* (2008) mentioned that between 2004 dan 2005, the contribution of small and medium enterprises to employment in Indonesia had increased. Despite the importance in economic development and employment generation, SMEs are often overlooked. Moreover, in today's business dynamics, the customer is the ultimate judge of the company performance. Effective and timely responses to ever-changing customer tastes and preferences have become essential components for successful business performance. Increasingly, marketing strategies and market orientation are critical strategic initiatives.

Several studies have examined the correlation between market orientation (MO), and marketing strategies, and SMEs' performance (Appiah-Adu, 1997; Appiah-Adu and Singh, 1998; Kohli and Jaworski, 1993; and Narver and Slater, 1990). However, those concepts of marketing strategies and market orientation were developed and principally

based on studies of large organizations and that may not be applicable to small firms (McCartan-Quinn and Carson, 2003). Moreover, while much attention is given to small business by policy makers, practitioners and academics, there is little work on marketing strategies (Ward and Lewandowska, 2004) and market orientation (Lee *et al.*, 1999; Becherer *et al.*, 2003), within the small business sector. Further, given the uncertainty of future developments in the market, adopting a marketing strategies and market orientation is particularly challenging for SMEs. Further, no major research study in Indonesia has been undertaken to examine exactly how, and to what extent, these small firms have managed to survive, grow and succeed, or more specifically, how they make marketing decisions, promote their products and maintain competitiveness. Consequently, the purpose of this study is two-fold:

- (1) to find out whether SMEs in Indonesia have adopted both marketing strategies and market orientation concepts
- (2) to examine the relationship between marketing strategies and market orientation and their effect to the business performance of SMEs in Indonesia.

Since most of the existing theories or conceptual frameworks on SMEs were developed in the West and only a limited amount of rigorous empirical research on this topic has been undertaken in Indonesia, the current study represents a first step towards bridging the research gap. Such research can help to develop models that are relevant to the business environment in the country.

II. REVIEW AND FRAMEWORK

Plenty of research studies on market orientation and marketing strategies with performance have been undertaken and published but there is scarcity of literature in the Indonesian context. On the basis of the available published research studies, the followings will discuss the concepts of market orientation, marketing strategies and performance and eventually a model will be developed in Indonesian context. This section will discuss the overview of Indonesian SMEs, and concepts of market orientation and marketing strategies performance.

An Overview of Indonesian SMEs

Indonesian SMES play important roles to the economy, particularly as sources of income for many households, job opportunities, and contribute to gross domestic products and export (Wismiarsi at al., 2008; the Ministry of Cooperatives and SMEs, 2006; Tambunna, 2007). Furthermore, SMEs contribution to annual GDP growth is higher than larger enterprises (BPS, 2007). They are important engines for the development of local economies and communities (Tambunna, 2007). Compared to more developed economies in Asia Pacific, Indonesian SMEs have not contributed to the national economy yet. They have taken part in the employment opportunities (Tambunna, 2009). He added that outside the agribusiness sector, SMEs are the biggest source of employment, which provide more than 90% livelihood of workforce, in particular women and young. Most of SMEs are located in the rural area. Hence, they contribute to the development of rural people as entrepreneurs (Tambunna, 2009).

SMEs face various barriers in their business development. There are four major barriers of export oriented SMEs, specifically, uncertainty of raw materials availability, lack of support from the government and or regional government, difficulties in providing competitive price, and lack of regulation which support SMEs (Wismiarsi et al., 2008). Other study stated that common constraints faced by SMEs are lack of capital, raw materials, access to business information, difficulties in marketing, high transportation cost, problems caused by cumbersome and costly bureaucratic procedures to get licenses, and lack of regulations/policies which support SMEs (Tambunna, 2009).

A recent study found that SMEs from different industries could be challenged by different barriers or constraints (Wismiarsi at al., 2008). Their research, which was done for furniture handicraft and biopharmaceutical industries, revealed that SMEs in biopharmaceutical industry deal with different barriers compared to the other two industries. Its main barriers were its difficulties to meet the health and safety standards in the overseas markets. The same study revealed that the barriers, which were faced by the SMEs, drive them to develop and implement strategies to overcome those barriers. Barriers such as insufficient production capacity, lack of working capital, lack of human resources and raw materials have been overcome by SMEs. For example the rattan furniture industry, has developed an industry centre which has more than 300 members. This centre develops supply chain of the industry, which support integrated production

from ensuring the availability of raw materials to warehousing. It was found that the system was also invited free lance buyers to help promote and sell the products. The same centre has also developed system to overcome problems of working capital through a better payment system. Barriers related to marketing strategy such as product, price and distribution has been handled through segmenting the customer. Therefore, product design and price were set to meet the requirement of each segment. For barriers related to distribution, SMEs have overcome these barriers through the development and expansion of their networks of channels in overseas markets. Similar to furniture industry, SMEs in handicraft industry dealt with the marketing barriers through marketing strategy implementation, i.e., segmentation strategy. For example, SME arranged product design and strategy to handle specific needs of customers.

Market Orientation

The concept of market orientation itself, according to Appiah-Adu and Sing (1998), stems from the development in marketing theory, which holds that the ultimate goal of an organization is to fulfil customer needs for the purpose of maximizing business profits. The concept is generally seen as a business philosophy consisting of three pillars; customer focus, coordinated marketing and profitability. However, majority of researchers have often derived their definitions from the conceptualization of Kohli and Jaworski (Blankson and Cheng, 2005). Our current point is based on the most widely accepted definitions from Narver and Slater (1990) who define marketing orientation as “the organization culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continuous superior performance for the business”. Narver and Slater (1990) propose that market orientation comprises three components, namely:

Customer orientation – a sufficient understanding of target buyers, so that continuous superior value can be created.

Competitor orientation – understanding short-term strengths and weaknesses and long-term capabilities of both current and potential competitors

Interfunctional coordination – the coordinated utilization of company-wide resources for creating superior value for customers

This definition has been further developed to suit the context of small firms. However, a number of studies have indicated that small business owners have a problem with marketing and appear to give marketing a low priority compared to the other functions of their business (Robinson and Pearce, 1984). Meanwhile, Harris (1998) reveals that several key factors slow down the ability of small business to practise market orientation. These include an unclear view of the customer, contentment with the status quo, ignorance of market orientation, lack of competitive differentiation, limited resources, perceived inappropriateness and a short-term mentality. Appiah-Adu and Singh (1998) omitted the interfunctional-coordination component, divided the customer orientation component further into customer satisfaction and customer understanding, and kept the competitive-orientation component. Thus, it shows that studying the phenomenon in the SME context requires a slightly different conceptualisation.

Notwithstanding the tendency for a low impact of customer orientation on performance among small- and medium-sized businesses, marketing scholars and managers have continued to argue that a business which improves its customer orientation will enhance its performance. Deshpande *et al.* (1993) concluded that customer orientation was positively associated with performance. Most studies have supported the view that market oriented firms have higher innovation and corporate success (Kohli and Jaworski, 1993; Narver and Slater, 1990).

Marketing Strategy

In addition to market orientation, organizations need marketing strategies on understanding the market and on developing strategies in response to market opportunities or threats. A number of marketing gurus have broadly argued that “marketing strategy” to be a concept built on strong platform of segmentation, targeting and positioning (Kotler and Keller, 2009; Cannon et al., 2008). According to Kotler and Keller (2009) marketing strategy requires decisions about the specific customers that a firm aims to target and marketing mix the firm may develop to appeal to that target market by positioning it suitably in a superior way. Meanwhile, Cravens and Piercy (2009) mention that marketing strategy seeks to deliver superior customer value by combining the customer-influencing strategies of the business into a coordinated set of market-driven actions. According to them, the selection of a good strategy will have a

positive impact on organization's performance. Consequently, marketing strategy has a wide scope of activities, from the selection and examination of a target market to the satisfaction of customers' needs, consistent with a company's marketing goals and the competitive positioning of its product offerings in the marketplace. In the international business and marketing literature (e.g. in Czinkota *et al.*, 2005), the effect of marketing strategy on company performance has been extensively examined. A major proposition has been that the competitiveness of many companies lies largely in the effectiveness of their marketing planning and the implementation of their marketing strategies. Meanwhile El-Ansary (2006) reveals that marketing strategy enables effectiveness through better segmentation, targeting, differentiation and positioning. In details, a sophisticated marketing strategy could help companies to cope with environmental complexities, identify sources for competitive advantage, to set direction for employees gain their commitment, to encourage marketers to think long term, and to provide the basis for control (Cravens and Piercy, 2009). In the spirit of this theory, it is assumed that a firm can achieve sustainable competitive advantage by creating superior value for its customers (Narver and Slater, 1990). It is therefore, marketing strategy is central to success in today's fast moving competitive markets, and measuring marketing's performance is critical to managing it effectively.

However, as has been noted earlier, what is not clear is whether the present market orientation concept and marketing strategies developed within large organization environment is actually appreciated and practised in the small business sector in Indonesia.

Performance

Various conceptualizations of organizational performance have been presented in past research. Each of the four performance dimensions, profitability, growth, adaptability, and customer satisfaction, were operationalized with multiple items (Venkatraman and Ramanujam, 1986). Many Research studies which have examined the link between organisational variables and business performance have often utilised two main approaches (Appiah-Adu and Singh, 1998). First, there is the subjective concept which is primarily concerned with performance of firms relative to that of their competitors (Golden, 1992). The second method is the objective concept which is based

on absolute measures of performance (Cronin and Page, 1988). This study will employ the latter. Other studies indicate that organisations' objectives can be expressed in financial as well as non-financial performance. For example, Peel and Bridge (1998) state that financial performance especially profit and sales growth are most commonly used in UK SME manufacturing companies. Various measures were used for financial performance of organisation such as Return on Asset (Profitability). They further mention that many firms in UK consider profitability as the first rank of the firms' objectives and sales growth as the second. Meanwhile, Prieto and Revilla (2006) add that non-financial performance measures, such as customer satisfaction, growth of customer number, employee satisfaction, quality in products and services are also considered as they have positive influence on financial performance in the future. Yeung (2007) mention that performance is measured by market share, sales volume and profitability. Meanwhile, Kathuria (2000) reveals that perceptual measure such as quality, accuracy, satisfaction, and timely delivery is recommended in manufacturing industry. This study will employ market share, sales growth and profitability as measures of business performance.

In sum, a number of literatures demonstrate positive relationships between market orientation, and competitiveness and customer satisfaction (Blankson et al., 2006); market orientation and business performance (Narver and Slater (1990; Appiah-Adu and Singh,1998). However, literature has not explored in detail the nature of the relationship between market orientation and marketing strategies and organisational performance. Understanding this relationship is essential in guiding entrepreneurial behaviour towards improved small business performance

Theoretical Framework

Because most of the existing theories on SMEs have been originated from the West and little research on this topic has been undertaken in Indonesia, following conceptual model (framework) and research hypotheses based upon predominantly Western theories on SMEs are formulated. The framework as seen in Figure 1 is based on widely accepted definition of marketing strategy which is built on long term differentiation and STP (segmentation, targetting and positioning), and of marketing orientation which is built on customer orientation, and competitor orientation. The

propositions were developed based on a previous qualitative study that Indonesian SMEs have implemented marketing strategies to face challenges in their markets (Wismiarsi et al., 2008). Performance is measured by sales, number of employees and net profit. In addition, the development of the framework and the research hypotheses will be further observed by our pilot study with SMEs in Indonesia. The proposed hypotheses are as follows:

H1: A firm's level of market orientation is positively related to its performance

H2: A firm's level of marketing strategy is positively related to its performance

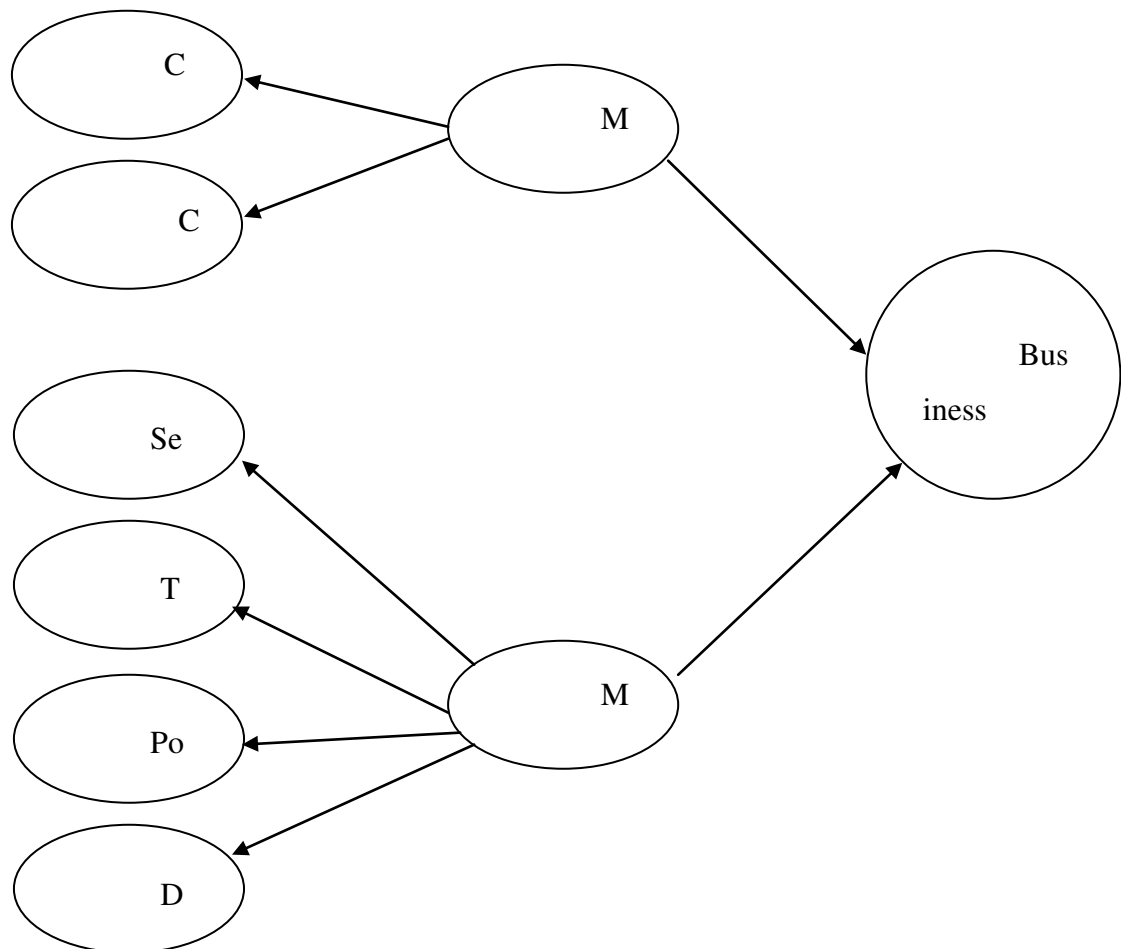


Figure 1: Conceptual Framework of the Study

III. RESEARCH DESIGN

Data Generation

A self-administered questionnaire will be mailed to marketing executives of both manufacturing and service firms in Indonesia. The sampling frame is derived from SMEs business founders based on Standard Trade & Industry Directory of Indonesia 2008. Important information for every company listed includes the company's full name, business address, telephone number, fax number, business contact person and position, ownership and other relevant information.

Different official organizations in Indonesia have different criteria in classifying SMEs. In general the criteria are based on number of workers (Biro Pusat Statistik), assets (Ministry of Cooperatives and SMEs), and business turnover (Ministry of Finance). This proposed study will consider number of workers as the basis for the sample selection. The would-be-selected samples are the SMEs with less than 100 workers as classified by BPS. Since it is difficult to detect the number of employees from the Directory, the screening will be implemented after the filled-in questionnaires are returned. Accordingly, the company will be neglected for further examination if the above-mentioned criterion is not met.

Instrument

The questionnaire in Bahasa Indonesia will be developed from the available literature. The instrument explores the marketing approaches and practices of small firms in Indonesia in more depth. Pre-testing of the questionnaire will be implemented before finalization. The final questionnaire including a cover letter and a return-stamped envelope will be mailed to the chief executive officers or owner/managers of the small firms in the sample. The objectives of the study and confidentiality are mentioned in the cover letter. To motivate high responses, memento will be sent to the respondents in return to the filled-in questionnaires. The questionnaire contains four sections. Section I contains the background information of respondents. Section II contains questions regarding market orientations (MO) practices. Section III contains questions regarding marketing strategies which are actually adopted by the company. Section IV contains questions regarding performance. This information will be collected using a seven-point scale (1 = strongly disagree to 7 = strongly agree) indicating varying degrees of

agreement to statements about these variables. The validity and reliability test will also be implemented.

Operationalization and Measures

Constructs from previous research on the relevant variables will be derived from a variety of authors. Tabel 1 displays the indicators of the three dimensions observed (market orientation, marketing strategy and performance).

Tabel 1: Proposed Constructs

Construc t	Indicators	Authors
Marketing Strategy	<ul style="list-style-type: none">• Segmentation• Targeting• Positioning• Long-term differentiation	(Kotler and Keller, 2009; Cannon et al., 2008; El-Ansary, 2006; Cravens and Piercy, 2009; Narver and Slater, 1990)
Market Orientation	<ul style="list-style-type: none">• Customer orientatiion• Competitor orientation	Narver and Slater, 1990; Kohli and Jaworski, 1993; Appiah-Adu and Singh, 1998
Performance	<ul style="list-style-type: none">• Sales growth• Profitability	Venkatraman, 1989; Peel and Bridge, 1998; Kathuria, 2000

IV. IMPLICATION AND CONCLUSION

The purpose of this paper is to propose a marketing-based framework that may contribute to the knowledge by examining marketing strategies and market orientation with SMEs, performance in Indonesia context. From such perspectives, it might be easy to understand whether the SMEs in Indonesia implement marketing strategies and market orientation and whether both marketing practicses help SMEs' performance. Using both dimensions, it is suggested that marketing strategies and market orientation will influence firm performance. Such study is in the development stage by the authors.

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